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G.M. AND UNION IN A DEAL TO CUT HEALTH BENEFITS

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General Motors says it has reached tentative agreement with United Automobile Workers union to cut $1 billion in annual health care benefits for more than 750,000 blue-collar workers, retirees and their families as part of effort to climb out of financial crisis; GM also reports $1.6 billion third-quarter loss, bringing losses to nearly $4 billion so far this year; company says it will seek to sell majority stake in General Motors Acceptance Corp; for union, tentative agreement to cut health care benefits is biggest strategy shift since early 1980's, when UAW made wave of concessions to head off bankruptcy filing by Chrysler; retreat of UAW sends further signal about how difficult it has become for American labor unions to preserve previously won gains; UAW has in past won richest contracts, at least for Big Three assembly workers and retirees; Ford Motor Co and Chrysler division of Daimler-Chrysler are already discussing health care cost cuts with union and will seek similar concessions; all three Detroit-based companies negotiate labor contracts in tandem; photo; graphs (M)

DETROIT, Oct. 17 General Motors said on Monday that it had reached a tentative agreement with the United Automobile Workers union to cut $1 billion in annual health care benefits for more than 750,000 blue-collar workers, retirees and their families as part of an effort to climb out of a financial crisis.

"This is a very big step forward that we will build on," said Rick Wagoner, G.M.'s chairman and chief executive. He called it "the single biggest cost reduction that we've probably been able to announce in a single day in the history of G.M."

Even as it disclosed the breakthrough with its union on Monday, G.M. reported a $1.6 billion third-quarter loss, its largest quarterly loss in more than a decade.

In a further reflection of its financial distress, the company, which has lost nearly $4 billion so far this year, said it would seek to sell a majority stake in the General Motors Acceptance Corporation, the financial services giant that is G.M.'s most steady profit center. The possible sale, along with the deal, encouraged investors on Wall Street.

But for the union, the tentative agreement to cut health care benefits is the biggest strategy shift since the early 1980's, when the U.A.W. made a wave of concessions to head off a bankruptcy filing by Chrysler.

This time, with the future of the entire domestic auto industry increasingly at risk, union leaders agreed late Sunday night, after several months of negotiations, to reopen their labor contract before it expires in 2007.

Although the specifics of the agreement have not been disclosed, health policy experts said that in shifting more costs to workers and retirees, G.M. still appeared to be years behind big companies in most other industries. And the benefits that G.M.'s retirees retain will probably remain the envy of many other retired Americans. [Page C1.]

Retirees covered by union contracts in other industries pay a bigger share of health care costs. At the big telecommunications companies retirees pay more, and companies like Verizon have added wireless units that do not have unions and offer less-generous benefits.

Still, while the challenges of the American labor movement came into sharp relief this year when some prominent unions split from the A.F.L.-C.I.O., the retreat of the U.A.W. on Monday sends a further signal about just how difficult it has become for American labor unions to preserve previously won gains.

Among industrial unions, none have won richer contracts than the U.A.W., at least for Big Three assembly workers and retirees, many of whom pay no monthly premiums, deductibles or co-payments beyond those for prescription drugs.

That will change, though G.M. and the union declined to give details of specific cuts because local union leaders had not yet been informed of the agreement's details.

G.M. shares rose $2.11, or 7.5 percent, to $30.09.

The Ford Motor Company and Chrysler, now a division of DaimlerChrysler, are already discussing health care cost cuts with the union and will seek similar concessions, since all three Detroit-based companies negotiate labor contracts in tandem.

"We can't be put at a competitive disadvantage," said Jason Vines, Chrysler's vice president for communications.

The health care agreement would trim about $15 billion from G.M.'s future retiree health care liability, which is $61 billion for hourly retirees and $77 billion including salaried retirees. It will also cut G.M.'s annual health care expenses by $3 billion before taxes, and save it about $1 billion a year of cash, out of a nearly $6 billion annual medical bill.

In a significant concession to the union, G.M. agreed to make $3 billion in contributions by 2011 to a special fund set up to offset the benefits cuts.

"The tentative agreement on health care matters is the result of an in-depth analysis of G.M.'s financial situation and many weeks of intense discussion between the U.A.W. and G.M.," said Ron Gettelfinger, the union president, and Richard Shoemaker, the union's lead G.M. negotiator, in a joint statement.

The three Detroit automobile companies are among a handful of large employers that do not ask retirees, 65 or older, to contribute to premiums, according to Watson Wyatt, a benefits consulting firm.

In a survey of 458 employers that had retiree health plans early this year, all but 23 required contributions by retirees. Besides autos, the 23 included 3 drug manufacturers and 8 hospital and health services employers.

"Telecommunications retirees have had deductibles and co-pays for some years," said Bruce Taylor, a former Verizon benefits official who is a consultant with Associates & Wilson in Rosemont, Pa. The union also agreed to contribute part of the monthly premium when a cost ceiling is breached, but this has not yet happened, he added.

At SBC Communications, most active and retired workers will switch to high-deductible health savings plans next year but individuals still will not contribute to premiums. Coverage including a spouse will cost $143 a month. SBC pays 70 percent of employee and retiree health costs, Walter Sharp, a spokesman, said.

"Even the granddad companies that maintained these benefits are on a track moving away from it," said Dallas Salisbury, president of the Employee Benefit Research Institute, a nonprofit research center in Washington.

Local union leaders from around the country were summoned to a meeting Thursday in Detroit to discuss the details of the plan, and a ratification vote could come as early as this weekend. A person briefed on the agreement said it would impose deductibles and co-payments beyond those for prescription drugs.

Retirees, braced for bad news, were waiting to hear the details.

"All you have to do is declare bankruptcy and you can run away from your contract, so the retirees expect the leaders will have to do something to avoid G.M. declaring bankruptcy," said Stan Marshall, 76, a retired G.M. worker and former U.A.W. official who lives near Flint, Mich. He said many retirees were supporting children who had lost jobs in Michigan, a state that has one of the nation's highest unemployment rates.

Retirees, however, will probably still have benefits that many other American retirees would envy, if not the eye-popping benefits they have now. Many retirees currently have co-payments of only about $10 for prescription drugs. G.M., which insures 1.1 million Americans, spends about $1,500 per car produced in the United States on health care, more than it spends on steel and believed to be about $1,000 more than Toyota spends per car.

Dorothy Bailey, 75, retired early from General Motors in 1967 after just a decade, but still gets benefits. Now, she said, if the cost of medical coverage goes up too much she will have to make choices like whether to spend money on pills or groceries.

"It's going to hurt me bad," she said. "But do we have a choice? No we don't."

But Ms. Bailey, a former assembly line worker from Belleville, Mich., said she knew

that her benefits were vulnerable because of G.M.'s financial troubles, and she said she expected to shoulder some of the burden. "I can understand that we're going to have to take some cuts; it has to be. I just have to accept what is."

While a deal on health care had been expected, the announcement that the company would seek to sell a majority stake in G.M.A.C. was more of a surprise. The division, which offers everything from car loans to home mortgages to insurance, has been constrained by G.M.'s junk bond ratings, which make it more costly to issue bonds.

Robert Hinchliffe, an analyst at UBS, said such a sale could reap $10 billion to $15 billion, though it would also require the company to divide up the division's profits. The three major credit ratings agencies said a sale of a majority stake in G.M.A.C. to an investment grade company could lead them to give G.M.A.C. a higher rating than that of G.M.

Many financial analysts see Monday's announcement as a positive step for G.M. But they say much more still needs to be done as the company struggles on a number of fronts, most notably in its failure to make enough cars and trucks that American consumers will buy without heavy discounting. High gas prices have also hurt a company reliant on sales of large sport utility vehicles and pickup trucks.

"It's reflective of the sense of urgency both sides felt," said David Cole, the chairman of the Center for Automotive Research, an industry consulting firm. "The U.A.W. saw the handwriting on the wall. They feared a nuclear option, like killing health care benefits for retirees."

Included among the pressures on Mr. Wagoner to take aggressive steps is the emergence of the billionaire financier Kirk Kerkorian as one of G.M.'s newest, and largest, shareholders. Mr. Wagoner said of Mr. Kerkorian, "we've obviously talked with him, but beyond that I really don't have anything I want to comment on today." Mr. Kerkorian indicated recently that his investment firm, Tracinda, might seek a seat on G.M.'s board.

G.M. also reiterated its plan to cut 25,000 American blue-collar jobs, but suggested that its plans for cuts and plant closings could come sooner than its previous timeline, which was by the end of 2008.

Mr. Wagoner said he would have further restructuring announcements by the end of the year, adding that the company would also continue cutting salaried workers. All of the cuts in jobs, benefits and other areas are aimed at saving $5 billion annually by the end of 2006.

When Mr. Wagoner and other executives said in March and April that they needed major health care concessions from the union, they spoke of forcing more ambitious cutbacks on the union. In recent months, G.M. had sought the kind of cuts it won Monday, while the union had made counteroffers of cuts totaling several hundred million dollars.

That the union agreed to G.M.'s demands shows how labor leaders in a range of industries, from airlines to steel, have been increasingly under assault.

The U.A.W. already has plenty of troubles on its plate. Earlier this month, G.M.'s

former parts division, Delphi, filed for bankruptcy protection, saying it would seek sharp labor concessions, including wages as low as $10 an hour for workers.

Delphi is also weighing heavily on G.M., which said Monday that Delphi's bankruptcy filing could increase its future liabilities by as much as $12 billion, up from its previous estimate of no more than $11 billion. When Delphi was spun off in 1999, G.M. agreed to pay a large amount of health and pension benefits due Delphi retirees.

"It's a one-two punch, and the second one hasn't landed yet," said Eldon Renaud, president of a union local in Bowling Green, Ky., referring to the Delphi filing and the fact that he did not yet know the fine print of the G.M. deal.

If anything, the company's third-quarter results only reinforced how much work needed to be done to right G.M.'s North American operations, which lost $1.6 billion in the quarter, compared with an $88 million loss a year earlier. The company's share of the North American market fell to 25.6 percent from 28.5 percent a year earlier, as the effects of its offer of employee discounts to buyers waned. Efforts to revitalize its car and truck offerings have yet to payoff.

Over all, G.M. lost $1.6 billion, or $2.89 a share, and $1.92 a share excluding special charges, well below Wall Street's expectations. G.M.'s European operations lost $105 million in the quarter, compared with a loss of $236 million a year earlier. Asia Pacific operations earned $176 million, up from $78 million. Earnings at G.M.A.C. rose to $675 million in the quarter from $620 million a year earlier.

Photo: Rick Wagoner, the chairman of G.M., announced the tentative agreement yesterday in Detroit. The details have not been disclosed, but the union could vote on the deal as early as this weekend. (Photo by J. Kyle Keener/Detroit Free Press, via Associated Press)(pg. C4)

Chart: "Not a Pretty Picture"
G.M.'s auto sales dwarf the revenue brought in by its finance operations, but only the finance operations have been profitable lately. That has eroded the company's reserves.

Graphs track G.M.'s auto sales and revenue brought in by its finance operations since 2003.

(Source by General Motors)(pg. C4)

October 20, 2005, Thursday - A front-page article on Tuesday about an agreement between General Motors and the United Automobile Workers to curtail health benefits for employees and retirees misstated the scope of planned revisions at another big employer, SBC Communications. (The error also occurred in an article in Business Day the same day about the effect on G.M. retirees.) The changes affect active or retired salaried employees not covered by union contracts -- not those covered by contracts.

---- INDEX REFERENCES ----

COMPANY: GENERAL MOTORS CORP; SBC COMMUNICATIONS INC; GENERAL

MOTORS ACCEPTANCE CORP; FORD MOTOR CO; DAIMLERCHRYSLER AG; VERIZON COMMUNICATIONS

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